Supreme Court, U.S.
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No. 01-1647

IN THE

Supreme Court of the United States

VULCAN ENGINEERING CO., INC.,

Petitioner,

v.

FATA ALUMINUM, INC. and FATA GROUP, S.P.A.,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

REPLY BRIEF

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CORPORATE DISCLOSURE STATEMENT

Petitioner's Corporate Disclosure Statement was set forth at page *ii* of its Petition for a Writ of Certiorari, and there are no amendments to that Statement.

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35 U.S.C. 271(a) 1, 2

I. The Petition Is Due to be Granted To Resolve the Question of Damages for Infringement by Virtue Of An "Offer For Sale"

The issue on which certiorari is sought is what damages may be recovered for an infringing "offer for sale" under 35 U.S.C. § 271(a). That is, whether this Court's "but for" damage rule applies or whether damages for an infringing "offer for sale" must be qualitatively and quantitatively different from damages arising from an infringing "sale" as held by the court below. (App 59a). The July 28, 1999 GM/Vulcan Agreement (App A) was not the reason damages were denied for Respondents' infringing offers to sell since this infringement began August 13, 1997, and paragraph 4 of the Agreement, at the very least, preserved damages from infringements occurring prior to the Agreement. (App A, 3a ¶4). These damages are not released by the subsequent acts of the Patentee Vulcan in reaching an agreement with the purchaser GM. Accordingly, the "but for" rule of damages must apply.

Contrary to the attempted obfuscation by the Respondents, FATA this is not a case of mere contract interpretation. The Agreement, which is fully set forth as Appendix A to Respondents' brief is not ambiguous. The Agreement specifically preserves Petitioner Vulcan's rights to damages from FATA for the loss of the business (App A, 3a ¶4), sets the price for the Vulcan sale of casting lines 6 to 9 at the final bid price Vulcan submitted (App A, 2a ¶3), and provides GM with a rebate of up to $3,000,000 if Vulcan is successful in the lawsuit and recovers against FATA for the loss of the business relating to lines 2 to 5 (App A, 3a ¶5). The Agreement was entered into because final resolution of the lawsuit would "occur too late to allow timely supply of the casting lines for the GM Saginaw and Defiance facilities" (App A, 2a). Respondent note: "No party disputes that delivery of the four lines would have constituted infringement

but for the license Vulcan voluntarily granted to GM." (Res. 17). However, the question before the Court is not the measure of damages for delivery, which as noted could only be "timely" if FATA delivered the lines, but rather, what damages are available for an infringing "offer for sale" which caused Vulcan to lose the business before the Agreement was executed.

As Judge Michael points out in the dissent, "By any reasonable interpretation, the language [of the agreement] does not in any way limit the damages that Vulcan could receive for 'failing to obtain the business'. . ." (App 27a). If infringement of the "offer to sell" aspect of § 271(a) authorizes recovery of damages, damages must be allowed in situations such as this. Here, the infringer has acted to the detriment of the patent owner and committed acts of infringement by offers to sell. The offers cause the patentee to lose the business because it can now not make timely delivery. The patent owner then allowed the purchaser to accept delivery of the infringing products because they are the only timely products available, and agrees to seek compensation from the infringer rather than enjoining the purchaser from using the infringing products. Purchaser now has the products, infringer has the fruit of his infringement, and the patent owner has nothing because the court below held that damages for an infringing offer to sell must be quantitatively and qualitatively different than damages for an infringing delivery, even though the patentee lost profits because of the infringing offer to sell rather than the delivery.

If the "but for" standard of this Court in awarding damages is not applicable in this case, then infringement by "offer to sell" is without remedy other than injunctive relief. Nothing in the statute indicates that this is so. The Petition should be granted to make this issue clear.

II. The "Exhaustion" Doctrine Is Inapplicable

Respondents reliance on the exhaustion doctrine simply begs the question. The question under the exhaustion doctrine is whether the patentee has been compensated for the use of the product sold. In the early decisions by this Court, the rationale was made clear that a purchaser for value could dispose of the product or use the product free of the patentee. *See Adams v. Burke*, 84 U.S. (17 Wall.) 453, 456-57, 21 L. Ed. 700 (1874); *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 663, 39 L. Ed. 848, 15 S. Ct. 738 (1895). As the Court noted in *Keeler*: "The conclusion reached does not deprive a patentee of his just rights, because no article can be unfettered from the claim of his monopoly without paying its tribute. The inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration." 157 U.S. at 667. However, exhaustion is not applicable where the "tribute" has not been paid, or as noted by Judge Michael in the dissent (App. 29a), "Vulcan received nothing to make it 'whole' for profits lost to Fata as a result of the four infringing devices that GM accepted, contrary to the very purpose of awarding damages in the first place."

In the majority ruling, the Federal Circuit departed from its own precedent in applying the exhaustion doctrine. In *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), the Federal Circuit explained that an unconditional sale of a patented device exhausts the patentee's right to control the purchaser's use of the device thereafter. *Id.* at 706. The theory behind this rule is that in such a transaction, the patentee has bargained for, and received, an amount equal to the full value of the goods. In *B. Braun Medical, Inc. v. Abbott Laboratories*, 124 F.3d 1419 (Fed. Cir. 1997), the Federal Circuit further explained that the exhaustion doctrine does not apply to an expressly

conditional sale or license. In such a transaction, it is more reasonable to infer that the parties negotiated a price that reflects only the value of the "use" rights conferred by the patentee. As a result, express conditions accompanying the sale or license of a patented product are generally upheld. *Id.* at 1426. The Federal Circuit erred in treating the post infringement release to General Motors as an unconditional sale. (App. 19a). The Federal Circuit is also in conflict with the existing precedent of this Court, which held: "The straightforward rule is that a party releases only those other parties whom he intends to release." *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 401 U.S. 321, 347 (1971), *reh'g denied*, 401 U.S. 1015 (1971).

The unambiguous language of the Agreement shows that Vulcan did not intend to interfere with GM's ultimate disposition of the product, nor did Vulcan intend to enjoin GM's use of the product, or stop the "timely" supply of the product. However, the Agreement was clear that Vulcan was not releasing the infringer FATA for the loss of the business which had already occurred by the time of the Agreement, since Vulcan could no longer timely supply the product. That FATA was not to be released by the Agreement is made clear by the fact that GM was entitled to recover a portion of the damages recovered against FATA for lines 2 through 5. (App A, 3a ¶5). Since Vulcan has not received compensation from GM for lines 2 through 5, no exhaustion can apply.

III. The License To General Motors Is Not a Question of State Law Contract Interpretation

The Federal Circuit did not rely on state law in denying Vulcan recovery for lines 2 through 5. Instead, the court erroneously relied on *Cyrix Corp. v. Intel Corp.* 77 F.3d 1381 (Fed. Cir. 1996) which held that a license to "have made" a patented product released those in privity with the licensee

from prospective infringement. (App 19a). *Cyrix* did not consider a situation, where infringements had already occurred when the license was granted. The case does not consider a situation where the infringements preceded the license, and the license did not release the infringer from past infringements. An answer to the issue of whether a "have made" license releases pre-license infringement is a patent law question, not a state law question. Further, the issue of what damages can be recovered under the U.S. patent law for infringements that preceded a license when there was no release for past infringements is a patent law question, not a state law question.

Respondents suggestion that Vulcan has been compensated for the infringement, and any additional compensation would be a windfall, is wrong. As of July 28, 1999, Vulcan had lost all nine lines included in the G.M. Saginaw Project due to FATA's infringement. Vulcan could not timely supply lines 2 through 5 so the Project was dead. (App A). If Vulcan had allowed the Project to die, it could have recovered damages for all nine casting lines since the business was lost because of FATA's infringement. Vulcan would have gotten all its damages. However, instead of killing the Project, Vulcan entered into the Agreement with GM under which it would get the lost orders for lines 6 through 9. Getting these orders was no windfall because Vulcan was already entitled to these profits as damages. While Vulcan allowed GM to take timely delivery of lines 2 through 5 from FATA, Vulcan received no compensation for these lines. Instead, it got the right to pursue damages for the infringement which had already taken place. (App. A, p. 3a ¶ 4). Unless it is allowed to recover damages for the past infringements which caused it to lose lines 2 through 5, Vulcan will be the only loser. It will only obtain compensation for 5 of the 9 lines. If Vulcan had not allowed the Project to proceed, Vulcan would have gotten

compensation for all 9 lines. Thus, there is no windfall in this case by allowing Vulcan to recover damages for lines 2 through 5, as the Agreement allows.

Because the Agreement is not ambiguous and because no lawful compensation has been received by Vulcan, the Agreement should have been treated by the courts below in accordance with this Court's precedent, in *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 401 U.S. 321, 347 (1971), *reh'g denied*, 401 U.S. 1015 (1971) and *Aro Mfg. Co., Inc. v. Convertible Top Replacement Co., Inc.*, 377 U.S. 476, 501, (1964) (wherein the Court held "The straightforward rule is that a party releases only those other parties whom he intends to release.") FATA was not a party to the Agreement. No recitation of FATA's concerns can act as a release in direct contravention of what Vulcan and GM intended, which was that Vulcan could recover damages for losing lines 2 through 5. (App. A, p.3a ¶4, ¶5).

CONCLUSION

Respondents' attempt to confuse the issue on which certiorari is sought should be rejected and the Petition for a Writ of Certiorari granted to establish the damages recoverable from an infringing "offer for sale".

Respectfully submitted,

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